

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2019/2020

BAC3654 – PROFESSIONAL ETHICS

(All sections / Groups)

12 JUNE 2020

9.00 a.m – 12.00 p.m

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages (excluding the cover page) with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

The financial crisis and demise of Canadian Bank (CB) in Canada between 2005 and 2010 was a serious issue that questioned the integrity and competence of external and internal auditor of CB. The crisis was blamed on the external auditor who were expected to certify the credibility of financial statements that it gives the true and fair view of the financial position of an organisation but failed in their responsibilities. The issue of banks going to extinction after being certified to be financially worthy raises question concerning the accuracy of auditors going concern opinion and this needs to be addressed before the situation gets out of hand. CB had engaged the same auditors for over 20 years. The finance director of the bank and the audit engagement partner were old friends.

Each year the auditors approved CB's going concern statement without qualification. The audit partner had occasionally, privately, expressed concerns to the finance director about CB's capital adequacy, and the longer term sustainability of the bank's business model. Despite having expressed his private doubts over CB's capital adequacy, the audit partner had signed off CB's accounts as a 'fair and faithful representation' at the most recent audit.

CB's non-executive directors and audit committee questioned the competence of CB's auditors and their approval of the financial statements, despite the clear underlying financial weaknesses of the bank. They raised their concern about the independence of the external auditors, how long they had held the appointment and how close a relationship the finance director had with the audit partner. The audit committee decided that instead of the current practice of executive board receiving audit and internal control reports directly, in the future they would receive these reports first in order to make unbiased recommendations. This practice will ensure that the audit committee may assess the real issues regarding internal audit and internal controls and present reasonable recommendations directly to the board of directors to act upon.

Required:

- a. Briefly discuss **5 (FIVE)** reasons why internal audit is important at Canadian Bank.
(10 marks)
- b. Explain **3 (THREE)** reasons why it would be more appropriate for the audit committee to review the internal audit report before it goes to the board.
(9 marks)
- c. Briefly state **3 (THREE)** reasons why it was in CB shareholders' interests for the bank to change their external auditor?
(6 marks)

[TOTAL 25 MARKS]**Continued...**

QUESTION 2

Although Ford had access to a new design which would decrease the possibility of the Ford Pinto from exploding through the installation of rubber bladder, the company chose not to install it. The installation of rubber bladder would have cost \$11 per car, even though it had done an analysis showing that the new design would result in 180 less deaths. The company defended itself on the grounds that it used the accepted risk/benefit analysis to determine if the monetary costs of making the change were greater than the societal benefit. Based on this analysis, Ford legally chose not to make the design changes which would have made the Pinto safer. However, just because it was legal doesn't necessarily mean that it was ethical. It is difficult to understand how a price can be put on saving a human life.

There are several reasons why such a strictly economic theory should not be used. First, it seems unethical to determine that people should be allowed to die or be seriously injured because it would cost too much to prevent it. Second, the analysis does not take into all the consequences, such as the negative publicity that Ford received and the judgments and settlements resulting from the lawsuits. Also, some things just can't be measured in terms of dollars, and that includes human life. However, there are arguments in favour of the risk/benefit analysis. First, it is well developed through existing case law. Second, it encourages companies to take precautions against creating risks that result in large accident costs. Next, it can be argued that all things must have some common measures. Finally, it provides a bright line which companies can follow. Furthermore, because of this design flaws, the Risk Committee of Ford became the centre of public debate.

(Source: The Ford Pinto case: The valuation of life as it applies to the negligence-efficiency argument, Law & Valuation, Professor Palmiter, 1999).

Required:

- a. Based on 5-Questions Approach, explain whether it would be appropriate for Ford to install the rubber bladder. (12 marks)
- b. Briefly discuss **4 (FOUR)** roles of Risk Committee in ensuring the effectiveness of risk management in an organisation. (8 marks)
- c. If Ford decided not to install the rubber bladder, briefly discuss this decision from the perspectives of utilitarianism and deontology. (5 marks)

[TOTAL 25 MARKS]

Continued...

QUESTION 3

- a. Tan Yun is a professional accountant employed by The Pahang Company Bhd since 2010. Tan really needs this job as he has a big family with five young children and jobs like this one is hard to come by in the area where he lives along with his family. This company deceptively avoids paying the mandatory import duties on the motorcycles it imports from Italy in November 2019. The President of the company, Rahman Yusuf asked Tan Yun to prepare and provide him with a statement of the duty avoided on the purchase of these motorcycles for the past three years. The President also asked that Tan Yun sign off this statement. The statement that Tan Yun prepared and presented to the President showed that RM11,800,000 in customs has been avoided by the company in the last three years. Since Tan Yun prepared the statement, he was having trouble sleeping at night.
- i. Explain the ethical issues in the above case. (8 marks)
 - ii. What does the professional codes of conduct say about this in Malaysia? (3 marks)
 - iii. Should Tan Yun quit the job and report this situation to the regulatory bodies? Justify your answer. (4 marks)
- b. Briefly explain 5 (**FIVE**) fundamental ethical principles of professional accountants. (10 marks)

[TOTAL 25 MARKS]

QUESTION 4

- a. Explain the 5 (**FIVE**) common pitfalls of ethical decision making. (10 marks)
- b. Briefly discuss 5 (**FIVE**) lessons of Enron's scandal. (10 marks)
- c. Briefly explain why might ethical corporate behaviour lead to higher profitability? (5 marks)

[TOTAL 25 MARKS]

End of Paper.